



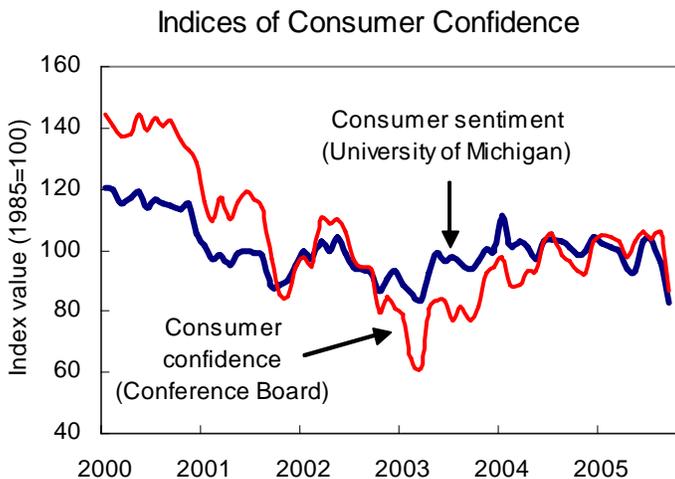
WEEKLY ECONOMIC DIGEST



JOINT ECONOMIC COMMITTEE – DEMOCRATIC STAFF
SENATOR JACK REED (D-RI) – RANKING DEMOCRAT

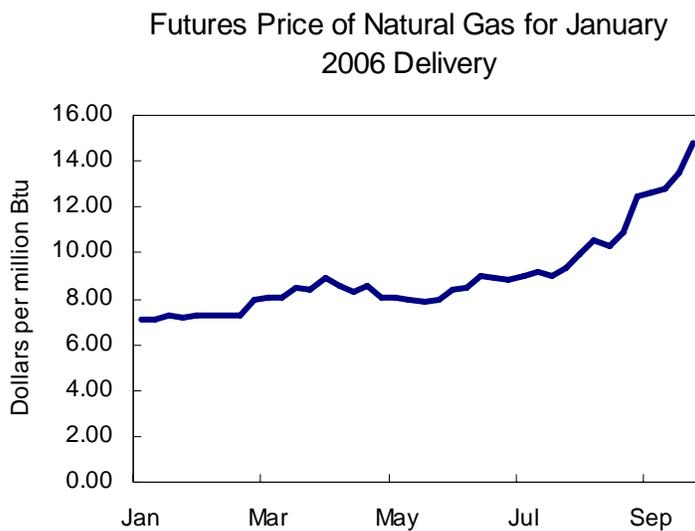
October 5, 2005

High Energy Prices and Post-Hurricane Uncertainty Batter Consumer Confidence



Source: Survey Research Center, University of Michigan; The Conference Board.

Note: The JEC Democratic staff rebased published index values.



Source: The Wall Street Journal.

- Consumer confidence plunged in September.** The Conference Board's consumer confidence index dropped by 17.9 percent last month, and the University of Michigan's index of consumer sentiment fell 13.7 percent (see top chart). Higher energy prices and concern over the jobs outlook in the wake of the hurricanes worked to increase pessimism among consumers. Forecasters expect that Friday's report on September employment will show substantial hurricane-related job losses but that employment will be boosted by reconstruction efforts in subsequent months.
- Oil and gas operations in the Gulf are still sharply curtailed.** As of yesterday, 90 percent of oil production and 72 percent of gas production in the Gulf of Mexico remained shut in. Refinery production in the Gulf is about 3 million barrels a day below capacity (a loss of about 18 percent of daily U.S. capacity). In the face of these constraints, the average retail price of regular gasoline rose 13 cents last week to \$2.93 per gallon. The futures price of natural gas to be delivered in January, which had been well below \$10.00 per million Btu for most of the year, reached \$14.77 last week (see bottom chart).
- Personal income and consumption dropped in August.** Real (inflation-adjusted) disposable personal income fell by 0.5 percent, and personal consumption expenditures dropped by 1.0 percent. That drop in income reflected a substantial decline in property income due to hurricane Katrina. Consumer expenditures were down largely due to a drop in vehicle sales.
- Business investment grew in August.** Factory shipments of capital goods rose by 3.1 percent in August. Moreover, new orders for nondefense capital goods excluding aircraft—an indicator of future business investment—were up 3.6 percent. Spending on private construction rose by 0.4 percent in August, to a level that is 5.3 percent higher than it was a year earlier.

The Economy at a Glance	Sep	Aug	Jul	Jun	2005 Qtr 3	2005 Qtr 2	2005 Qtr 1	2004 Qtr 4	2004	2003
Economic Activity										
Real GDP (% growth)	—	—	—	—	n.a.	3.3	3.8	3.3	4.2	2.7
Industrial Production (% growth)	n.a.	1.2	1.2	10.0	n.a.	1.5	3.6	4.5	4.2	0
Capacity Utilization (level, %)	n.a.	79.8	79.8	79.8	n.a.	79.4	79.3	78.8	78.1	75.5
Civilian Unemployment Rate (level, %)*	n.a.	4.9	5.0	5.0	n.a.	5.1	5.3	5.4	5.5	6.0
Housing Starts (thousands)	n.a.	2009	2035	2065	n.a.	2044	2083	1973	1950	1854
Real Disposable Personal Income (% growth)	n.a.	-6.2	0.9	4.7	n.a.	1.5	1.0 [#]	4.3 [#]	3.1 [#]	2.4
Retail Sales (% growth)	n.a.	-22.5	23.8	24.6	n.a.	10.8	6.0	9.9	7.3	4.3
Personal Saving Rate (level, %)	n.a.	-0.7	-1.1	-0.3	n.a.	0.1	0.5	1.2 [#]	1.5 [#]	2.1
Inflation & Productivity										
CPI-U Inflation, all items (% growth)	n.a.	6.2	6.2	0	n.a.	4.2	2.4	3.6	2.7	2.3
Core CPI-U Inflation (% growth)	n.a.	1.2	1.2	1.2	n.a.	2.0	2.6	2.3	1.8	1.5
Employment Cost Index (% growth)	—	—	—	—	n.a.	2.4	2.4	3.2	3.9	4.0
Output per Hour (% growth)	—	—	—	—	n.a.	1.8	3.2	2.5	3.4	3.8
Financial Markets										
T-bill Rate, 3-month (level, %)	3.42	3.44	3.22	2.97	3.36	2.86	2.54	2.01	1.37	1.01
T-note Rate, 10-years (level, %)	4.20	4.26	4.18	4.00	4.21	4.16	4.30	4.17	4.27	4.01
Federal Funds Rate (level, %)	3.62	3.50	3.26	3.04	3.46	2.94	2.47	1.95	1.35	1.13
Dow Jones Industrial Avg (index level)	10533	10554	10545	10487	10544	10382	10648	10362	10317	8994

Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Bureau of the Census, U.S. Department of Commerce; Bureau of Labor Statistics, U.S. Department of Labor; Board of Governors of the Federal Reserve System; Wall Street Journal; and Haver Analytics.

Notes: Except where otherwise noted, values in the table represent percentage growth measured at seasonally adjusted **annual** rates. Growth in retail sales includes food services. Core CPI-U inflation is the percentage change in the CPI-U excluding food and energy as reported by the Bureau of Labor Statistics. The Employment Cost Index is for workers in private industry. Productivity is output per hour for private nonagricultural establishments. The 3-month Treasury bill rate is the secondary market rate.

n.a. Denotes that data are not yet available.

* Subject to revision over the next week.

Adjusted by the JEC staff to exclude the temporary effects of Microsoft's special dividend payment in December 2004.

Upcoming Economic Releases:

- **The Employment Situation: September 2005** [Release: Friday, October 7]
- **Monthly Wholesale Trade: August 2005** [Release: Friday, October 7]
- **Consumer Credit: August 2005** [Release: Friday, October 7]